



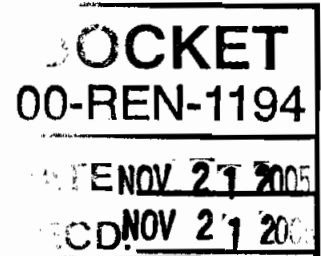
**Pacific Gas and
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November 21, 2005



ELECTRONIC DELIVERY

California Energy Commission
Docket Office
Attn: Docket No. 00-REN-1194
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

Re: Comments of Pacific Gas and Electric Company

Pacific Gas and Electric Company (PG&E) respectfully submits the following comments on the Staff Draft of the California Energy Commission's 2006 Renewable Energy Investment Plan.

Thank you for considering our comments. Please feel free to call me at (415) 973-6463 if you have any questions about this matter.

Sincerely,

Les Guliasi

LGG

Enclosure

BEFORE THE CALIFORNIA ENERGY COMMISSION

Implementation of Renewables Legislation)	Docket No. 00-REN-1194
)	
(Public Utilities Code sections 399 through)	
399.9 [SB 1194, AB 995]))	

**Comments of Pacific Gas and Electric Company on
The Staff Draft of the California Energy Commission's
2006 Renewable Energy Investment Plan**

I. INTRODUCTION

California state law requires the California Energy Commission (CEC) to submit an investment plan to the Legislature on or before March 31, 2006, to recommend an allocation of Renewable Resource Trust Fund (RRTF) money to be collected between January 1, 2007, and January 1, 2012. The Staff Draft of the CEC's 2006 Renewable Energy Investment Plan (Draft Plan) was made available for public comment on October 28, 2005. The CEC Staff convened a workshop on November 14, 2005 to receive stakeholder comment on the Draft Plan. Through this filing, PG&E renews and further supports its workshop comments on the Draft Plan.

Summary of PG&E's Recommendations:

1. The Renewable Resource Trust Fund allocation for the Renewables Portfolio Standard (RPS) should not be reduced from 51.5% to 38%.
2. A reverse auction should not replace Supplemental Energy Payments (SEP) as a means of providing public benefit funds to renewables developers.
3. The Market Price Referent (MPR) should continue to be calculated and used as a benchmark of market costs.

4. The Energy Rebate Program should be funded by reimbursement of the \$150 million "loan" to the General Fund that occurred in 2002.
5. Existing solid fuel biomass facilities, as well as solar thermal facilities are proven producers that should continue to receive funding.
6. Ratepayers should receive Renewable Energy Credit (REC) for output from facilities supported with Emerging Renewables Program (ERP) and Existing Renewable Facilities Program funding.
7. The discussion regarding the Distributed Generation program contains minor inaccuracies that, nonetheless, should be corrected.

Overall Context of PG&E's Recommendations

The Draft Plan provides a fair summary of the legislatively-mandated renewable energy subsidy programs. The legislative history on pages 3 and 4 demonstrate that the RRTF encompasses various policy initiatives to advance different forms of renewable energy generation. The post-2006 allocation of funds to the various forms of renewable resources will have a major impact on the speed and success of the penetration of renewable resources in the state of California. Thus, it is vital to the achievement of the state's policy goals for renewables that the weightings in the RRTF allocation plan should reflect and support the announced objectives of the Energy Action Plan and the Governor's messages.

The CEC has the task of recommending how the RRTF should now be allocated. PG&E suggests that underlying the CEC's recommendation should be an evaluation of how each type of renewables program contributes to the state's goal of achieving not only 20% renewables by 2010, but also a potentially greater renewables allocation. In order to effect a change in the marketplace of renewable resources, funding must be committed several years in advance before an increase in supply can be realized. Thus, the recommendations of the CEC must be responsive to the state's long-term goals for renewables resource development, along with the more obvious short-term impacts of subsidy allocation. The long-range view is all the more

critical because the RRFT allocation is to be enacted into law. While the Legislature has discretion to draft the terms of the process by which the subsidy will be allocated and disbursed, it can be assumed that once the allocation scheme has been adopted, it may only be changed by subsequent legislation.

II. SUMMARY COMMENTS.

RPS and the New Renewable Facilities Program

- Reducing the RRTF allocation from 51.5% to 38% is inconsistent with the policy direction of accelerating the 20% RPS requirement from 2017 to 2010 and the state's interest in moving toward 33% by 2020.
- The use of a reverse auction to allocate supplemental energy payments for eligible RPS contracts is likely further complicate the allocation process rather than achieve the goal of simplifying the process.
- A reverse auction will also lead to reserving funds that may not be used if the projects do not execute a long-term power purchase agreement with a California load serving entity. This was the case with funds awarded to some renewable projects under the SB 90 program.
- Also, a reverse auction may result in production incentives being awarded to projects that do not need any funding. The current system which limits the SEP award to the contract amount in excess of the MPR acts to minimize such over funding.

Emerging Renewables Program

- The plan should call for actively pursuing the \$150 million "loan" made to the General Fund in 2002. This would be an excellent way to increase funds for the ERP.
- To recognize the substantial utility customer contribution to the deployment of distributed generation renewable resources, the renewable energy credits resulting from ERP-funded programs should go to the ratepayers funding the ERP. When considering the rate impact of all the subsidies received by ERP participants, other customers can be paying more for the installation than the owner.

Existing Renewables Facilities Program

- PG&E supports continuing to provide funds for existing solid fuel biomass facilities, as well as solar thermal facilities. Consistent with PG&E's position on Emerging Renewable Program-funded projects, the consumers funding the program should receive the RECs from any facility supported with Existing Renewable Facilities Program funding.

- With respect to net energy metering, the Plan ignores legislative intent to match the size of distributed generation systems with the on-site load. That said, the Plan's concern that the "inability to meter across more than one electricity meter on a customer's site" limits development of distributed generation on dairy farms does not take into account the NEMBIO tariff. The legislation and tariff in fact allow dairy farms to aggregate load for generation credits.
- The plan defines "net metering" as retail net metering. This definition is too narrow. In fact, the legislation allows windmills over 50 kW, fuel cells and biogas digesters to receive generation credits under net metering.

Consumer Information and Market Support Program

- PG&E supports increasing consumer information to promote the installation of non-PV emerging technologies because that is a crucial way to bring non-PV-based technologies to consumers.
- PG&E is also supportive of continuing to use funds to support development of the WREGIS program.

III. THE DRAFT STAFF REPORT SHOULD BE MODIFIED SO THE FINAL ALLOCATION WILL BETTER SERVE THE STATE'S GOALS FOR RENEWABLE ENERGY RESOURCE DEVELOPMENT.

- A. The Renewable Resource Trust Fund allocation for RPS should not be reduced from 51.5% to 38% because the proposed reduction would be inconsistent with the goal of accelerating the 20% RPS requirement from 2017 to 2010 and with the state's interest in moving toward 33% renewables by 2020.**

The staff of the CEC has taken the analytical approach of surveying the state's energy needs, public policy, and consumer demand in an attempt to establish a principled foundation for an RRTF allocation. PG&E agrees that the preferred loading order in the EAP has been adopted as the state's lodestar for allocating energy resources. In a letter cited by the Draft Plan, the Governor explained, "The loading order calls for the utilities to meet their energy needs: first, through cost effective energy efficiency investments, including consideration and demand response program; secondly, from renewable energy sources, in accordance with renewable

portfolios standard requirements; and finally, from other energy sources.” (Governor’s letter to Don Perata in response to CEC’s 2005 IEPR, 08/23/05, at 3.)

This reference to renewable energy sources, and in particular, “renewable energy sources in accordance with renewable portfolio standard requirements” establishes the primacy of supplies procured through the Renewable Energy Program as resources to be fostered through the RRTF. While other types of renewable energy programs are either voluntary, or are subject to contingencies such as consumer disposable income, the RPS program of the investor-owned utilities (IOUs) is well established and will provide substantial additional renewable energy for Californians.

Not only is the RPS program a reliable driver of renewables growth, it is by far the largest component of the state’s renewables program. The annual incremental procurement targets of the three major IOUs will require approximately 160,000 MWh of new renewable electricity per year (in 2005 terms). The Energy Action Plan has adopted a goal of 20% procurement by the year 2010. This accelerates the annual procurement target to approximately 180,000 MWh per year based on expected 2005 actual deliveries and current retail sales levels. Finally, there is some consideration of a 33% renewables portfolio component by the year 2020. This would result in a very significant goal of approximately 53,000,000 MWh per year based on current combined retail sales levels for all three major IOUs. With actual RPS procurement in 2005 projected to equal approximately 23,000, 000 MWh per year, achievement of a 33% goal would require an overall increase of 30,000,000 MWh per year for the three major IOUs.

Assuming that development of less-expensive resources will occur before more-expensive resources, conforming to the least cost-best fit rule for renewables procurement means that utilities will be faced with more expensive forms of renewable energy resources as they

strive to procure increasing amounts of the required generation. As least-cost resources fill the available niches in utility procurement portfolios, it is likely that resources with other delivery profiles and performance factors will be required. Certain technologies that offer baseload generation tend to be more expensive in relation to intermittent generation. In order to accommodate increasing numbers of renewables, the utility may be required to pay more than the market price referent (MPR) and thus require SEPs. Thus, there is a foreseeable increase over time in both the number of projects and the amount of SEPs that could be requested per MWh of renewable generation added to the IOU power mix. Funds available to provide SEPs should not be drained at the very time they will be needed to achieve the state's RPS goals.

Utility consumers have paid the non-bypassable public good charge imposed by Pub.Util. Code section 381 to defray the expense of new renewable energy that is priced above market rate. These funds make it possible for utilities to include renewable resources as part of a market-based procurement strategy even though the renewables may cost more than non-renewable resources. Customers have already paid for the above market costs of the energy, through the SEP and they should therefore get the energy. The inequity that would result from the Draft Plan's reallocation of the RRTF may be avoided by continuing allocations to RPS procurement at the current level.

B. A reverse auction should not replace supplemental energy payments as a means of selecting renewable developments for public support. A reverse auction will retard project development by introducing more uncertainty into the process.

The term "reverse auction" describes a process of awarding renewables subsidies to the lowest bidders, limited by a maximum acceptable bid. It does not appear that any other criteria, such as the existence or nature of a renewables resource development proposal, is required to participate in the reverse auction. The disbursement of awards would be contingent upon signing

a long-term California RPS contract. It is not clear whether the award may be assigned by the winner to another entity.

The policy context for this proposal resides in the statement that, “(T)he 2005 Energy Report states that the current process for procuring renewable resources is overly complex... To address this problem, we recommend awarding public funds for RPS contracts through reverse auctions for production incentives, with awards conditioned on receiving contracts through the RPS solicitation process.” (Draft Plan at 15.)

The reverse auction is justified by reference to an “excessively time-consuming process for determining the market price referent” (which is needed to establish the amount of SEP available to each project with a signed power purchase agreement.) PG&E participated actively in the 2004-2005 proceedings to establish the MPR and agrees that the initial process was time consuming; however, it was also an inclusive and open process in which all stakeholders were encouraged to, and did contribute, high quality technical analysis of potential MPR models and inputs. Now that the analytical foundation for MPR calculations has been laid in D 04-06-015 and will be updated in a decision in early December 2005, the process of generating MPRs on a periodic basis as required to support RPS solicitations will take less time. The establishment of an evidentiary record should not be confused with the subsequent implementation of an approved methodology.

PG&E is aware of only one proposed renewable project that has applied for SEP funding. The dates on which the developer signed its agreement with the utility, filed its SEP application with the CEC, and received its determination from the CEC are not publicly available; however, the CEC is aware of these dates. The CEC staff has committed to issuing a SEP funding determination within 30 days of the receipt of a complete request. Thus, PG&E believes it is

premature for the CEC staff to assert that the MPR-SEP process is overly complex and time consuming.

It is not at all clear that a reverse auction for subsidies would be less complex, but it would result in inefficiencies and uncertainty in the development of renewable resources. This proposal would practically require a developer to receive a subsidy grant before it could participate in an RPS solicitation.

The CEC and the Legislature must recognize and accept the fact that a reverse auction utterly ignores resource fit, price level, and other considerations required by the RPS statute. That is, even if the project were desirable from a resource procurement perspective, it may never be proposed to a load serving entity because the developer had not bid low enough, in competition with other resources that may not possess the delivery characteristics needed by portfolio managers. Conversely, a project selected by a utility because it meets utility resource needs, is located in favorable transmission areas, or is the lowest price bid, may never come on line because it did not obtain a grant through the reverse auction.

Under the proposed reverse auction scenario, the CEC will award grants but will allow developers a certain ‘grace period’ before the award will be forfeit due to lack of a PPA. A reverse auction may also result in the waste of public subsidies as funds committed to developers that fail to sign a long-term California RPS contract lie idle, as was the case with funds awarded to some renewable projects under the SB 90 program.

Also, a reverse auction may result in production incentives being awarded to projects that do not need any funding. The current system which limits the SEP award to the contract amount in excess of the MPR prevents such over funding. All of these considerations demonstrate that the reverse auction proposal would result in a less efficient award of SEP funds to the developers

that best fit utility resource plans.

PG&E opposes the use of a reverse auction to allocate supplemental energy payments for the RPS program because there is no need to replace the current MPR-SEP process, a reverse auction would fail to allocate funds to desirable renewable resources, and would likely further complicate the allocation process rather than achieve the goal of simplifying the process.

C. The SEP award process should not reject the Market Price Referent.

The Draft Plan recommends that the MPR be removed from the RPS program based upon stakeholder comments recorded in a different CEC report. While some comments suggest the MPR may raise the bid offer price, PG&E believes that the MPR offers a useful benchmark of reasonableness and should NOT be removed from the RPS program. The Draft Plan gives no independent rationale for removing determination of an MPR from the program. The MPR will continue to be a valuable benchmark for determining whether the price of generation by SEP grant recipients is actually above market price, and whether SEPs will assist projects that would not otherwise be built.

D. Emerging Renewables Program

The contribution of the ERP to the state's renewable resources goals should be recognized through the consistent treatment of RECs. In order to integrate the ERP with the RPS, the RECs for ERP-funded programs should go to the ratepayers funding the ERP.

E. Existing Renewables Facilities Program

PG&E supports continuing to provide funds for existing solid fuel biomass facilities, as well as solar thermal facilities. Continuation of funding for biomass facilities at historic levels, would be a step in the right direction. Even though solar projects which do not require subsidy payments have been proposed, it cannot be assumed that in all instances, projects using this capital intensive technology can succeed through available contract revenue alone.

RECs from generation by any facility supported with Existing Renewable Facilities Program funding should be owned by the ratepayers funding that program, consistent with PG&E's recommendation regarding the renewable attributes created by the ERP.

Several of the Draft Plan's recommendations are based on an incomplete understanding of the DG program. On page 12, the Draft Report states that the term "net metering" refers only to retail net metering. In fact, the net metering legislation included generation-credit net metering for wind installations over 50 kW. Further, the legislation supporting fuel cells and biogas digesters also create generation credits, yet they are called "net metering" technologies. The definition of "net metering" as retail net metering should be corrected to be consistent with applicable statutes.

The Staff Draft also asserts that, "inability to meter across more than one electricity meter on a customer's site" limits development of DG on dairy farms." (Staff Draft at 12.) In fact, dairy farms can aggregate load for generation credits. This section should be corrected.

IV. CONCLUSION

PG&E appreciates the opportunity to comment on the Staff Draft Plan to the legislature on the 2007-2012 Renewables Investment Plan. We share the Commission Staff's desire to use renewable subsidies in the most effective manner to realize the state's 20% RPS goal at the earliest possible time. PG&E recommends that allocation of the RRTF be guided by long-term goals, not short-term results.

To that end, our primary recommendation is that the allocation of renewable funds to the new RPS program should be maintained at current levels, and that projects that have been screened for portfolio fit, viability, and reasonable price through the execution of power purchase agreements should be allocated renewable subsidies, instead of projects that may propose the

lowest subsidy. The final RRTF should incorporate PG&E's recommendations, as described herein.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **“COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY ON THE STAFF DRAFT OF THE CALIFORNIA ENERGY COMMISSION’S 2006 RENEWABLE ENERGY INVESTMENT PLAN”** by

- transmitting an e-mail message with the document attached to the following individuals below:

Vice Chair Jackalyne Pfannenstiel c/o cgraber@energy.state.ca.us
Commissioner John Geesman c/o hkalleme@energy.state.ca.us
Pam Doughman, Ph.D. at pdoughma@energy.state.ca.us

Executed on November 21, 2005, at San Francisco, California.

MARTIE L. WAY

Docket Optical System - PG&E Comments in D.00-REN-1194

From: "Way, Martie" <MLWk@pge.com>
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Date: 11/21/2005 4:38 PM
Subject: PG&E Comments in D.00-REN-1194
CC: <pdoughma@energy.state.ca.us>, <cgraber@energy.state.ca.us>, <hkalleme@energy.state.ca.us>

Enclosed please find Comments of Pacific Gas and Electric Company on the Staff Draft of the California Energy Commission's 2006 Renewable Energy Investment Plan being submitted today in Docket 00-REN-1194. Hard copy is being mailed to the California Energy Commission as well.

<<elec00-REN-1194Comments11-21-05.pdf>>

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